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How to choose a stockbroker

Choosing a stockbroker may be the most important investment decision you ever make.

Before you begin the search for a broker, learn how the stock market works, says Joanna Fallone, Manager of Inquiries in the Enforcement Branch at the Ontario Securities Commission. Take the time to familiarize yourself with the terms and language of the industry. You might like to obtain free literature about the stock market from the Communications departments at The Toronto Stock Exchange, the Canadian Securities Institute, the Investment Funds Institute of Canada and the Ontario Securities Commission.

Consider taking an investment course at the Institute or at a university or community college.

Think about the services you will require from a broker. "If you understand the market and will only need a broker to buy or sell stocks at your request, consider using the services of a discount brokerage firm," explains Ms. Fallone. "If you need advice and recommendations from a broker, look for a full-service brokerage firm". A full-service brokerage firm usually charges more than a discount brokerage firm.

Ask friends and relatives who invest in the stock market about their brokers and the brokerage firms they represent. It's

helpful to speak with people who are like you -- people with similar financial objectives and circumstances who have the same degree of risk tolerance.

Telephone or meet with the firm's branch manager. Ask about the firm's training programs. Some firms offer their brokers additional in-house training. Ask whether the firm is a member of The Toronto Stock Exchange or the Investment Dealers Association, both of which are self-regulatory organizations (SROs). SROs supervise and discipline stockbrokers who violate bylaws or regulations. Member firms must meet specific financial requirements and follow established trading guidelines.

SROs fund the Canadian Investor Protection Fund, which is a trust fund that compensates investors for financial losses resulting from the insolvency of a brokerage firm. Remember though -- SROs and the OSC cannot compensate investors for money lost through bad investments or assist investors to obtain restitution.

"Ask the manager for the names of three brokers and interview them. Look for a broker you can talk to and who will take the time to explain things to you," recommends Ms. Fallone. "By law, brokers are required to know about your financial means and goals and your risk tolerance in order to recommend investments suitable for you. It's called "Know Your Client". If you don't feel comfortable dealing with a particular broker, keep looking."

Ask the broker how many years he has been in business and about courses he has taken. Weigh knowledge versus sales ability, remembering that you need a knowledgeable broker and not a salesperson, says Ms. Fallone.

Ask the broker how much he will charge for services.

Commissions, which are earned by brokers when they buy or sell stocks, are not fixed and may be negotiated. Some firms, however, may have minimum fees in place.

Recognize the roles you and your broker play in making your investment decisions. "Don't just buy stocks and sit back waiting for the profits to roll in," says Ms. Fallone. Your broker provides many services but he will not run the show for you. He will make recommendations but it's up to you to make the final decision. To ensure yours is an informed decision, keep current. Read the business section of newspapers as well as financial statements, news releases and other documents issued by the company in which you are a shareholder.

When you have decided on a broker, check to see if he is registered with the Ontario Securities Commission. You can call the OSC at (416) 597-0681. You can also call the SRO to which he belongs to determine if he was ever been involved in a disciplinary hearing.

After you have signed the required forms and your account application is approved, trading can begin and future transactions can be handled by phone. Be sure to keep track of your account by reviewing all confirmations and monthly statements. Bring any discrepancies or problems to the attention of your broker or the firm's compliance officer as soon as possible.

How to handle problems

- 1) Talk to your broker first. A misunderstanding or an error in the paperwork can often be resolved by the broker.
 - 2) Write a letter to the firm's compliance officer or branch manager.
 - 3) Contact the self-regulatory organization to which the firm belongs. Most firms belong to either The Toronto Stock Exchange or the Investment Dealers Association. SROs investigate complaints and may take disciplinary action if a broker has violated a bylaw or regulation.
 - 4) Write to the Ontario Securities Commission. The OSC investigates complaints involving possible violations of the Securities Act.
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Reference: Monica Zeller
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